

QUESTIONS AND ANSWERS FOR MEMBERS ON REFORMS OF THE CLASSIC, CLASSIC PLUS AND PREMIUM SCHEMES

1. Bigger tax-free lump sums

1.1 I'm in classic, how will the new limit affect me? (I was expecting a lump sum of three times my pension anyway)

You will still automatically get the standard lump sum of three times pension. You will also be able to, if you wish, take an additional lump sum of up to 33/14 times your initial pension. You will need to give up £1 of annual pension for every £12 of lump sum.

If you are single and eligible to receive a partial refund of WPS (widows'/widowers' pension scheme) contributions on retirement, you will have less scope to give up pension for an additional lump sum. Likewise, you will have less scope if you are eligible for an Additional Service Payment (because, for example, you are over pension age and have more than 45 years' service counting towards your pension).

You need to bear in mind that, if you take a higher lump sum, it will impact on the "death after retirement" guarantee that is provided by **classic**. This is because the guarantee is that, if you should die shortly after retirement, a payment of 5 times your pension less any pension and lump sums already received is payable. So if you take a higher lump sum, this will reduce (or extinguish) any potential lump sum payment on death within 2 years of retirement.

Example:

Ruth is retiring from **classic**. Ruth has a pension entitlement of £10,000 a year plus a lump sum entitlement of £30,000. Ruth can, if she wishes, take an additional lump sum up to a maximum of $£10,000 \times 33/14 = £23,571$. If Ruth opts to take an additional £12,000 lump sum, her pension will be reduced by £1,000 a year.

So Ruth will end up with a tax-free lump sum of £42,000 and an annual pension of £9,000 a year.

1.2 I'm in premium, how will the new limit affect me?

You can already give up some of your pension for a lump sum when you retire. The increase in the limit means that you will be able to take a lump sum of up to 30/7 times your initial pension (this is nearly double the current limit). As now, you will need to give up £1 of annual pension for every £12 of lump sum.

1.3 I'm in classic plus, how will the new limit affect me?

On retirement, you get a standard lump sum of three times that part of your pension which relates to service before 1 October 2002, and have the opportunity to give up some of your pension which relates to service on or after 1 October 2002 for a lump sum. The increase in the limit means that you will be able to take an additional lump sum of up to the total of:

33/14 times your initial pension relating to service before 1 October 2002 **plus**
30/7 times your initial pension relating to service from 1 October 2002.

You will need to give up £1 of annual pension for every £12 of lump sum.

Example:

Justin is retiring from **classic plus**. For service before 1 October 2002, Justin has a pension entitlement of £8,000 a year plus a lump sum entitlement of £24,000. For service from 1 October 2002, he has a pension entitlement of £2,000.

Justin can, if he wishes, take an additional lump sum up to a maximum of:

$$(33/14 \times £8,000) + (30/7 \times £2,000) = £18,857.14 + £8,571.43 = £27,428.57$$

If Justin chooses to take the maximum additional lump sum, he will have to give up annual pension of $£27,428.57/12 = £2,285.71$.

Justin will end up with a total tax-free lump sum of £51,428.57 and an annual pension of £7,714.29 a year.

1.4 If I take a higher tax-free lump sum under the proposed new arrangements, will it affect the pension payable to my dependants when I die?

It could do. There is generally no impact on dependants' pensions as these are based on your pension before you give any up for a lump sum (or for a higher lump sum). However, if you are aged 75 or over when you die, the tax rules on pensions will restrict the total of any dependants' pensions payable to a maximum of the amount of your pension at the date of your death. As taking a higher lump sum reduces your pension, this might lead to your dependants' pensions being reduced if you die after reaching 75. But this is only likely to be an issue if you leave two or more children under age 18 (or under age 23 if they are in full-time education) when you die over age 75.

1.5 I understand that if I am re-employed after I retire, my pension will be reduced or suspended (“abated”) if my pay and pension amount to more than my pay before retirement. Will the amount of lump sum I take under the new arrangements (and hence the pension I am left with) affect the extent to which abatement will apply?

No. The abatement rules have been amended so as to apply consistently regardless of how much lump sum you choose to take. The pension used for abatement purposes will assume that you take a lump sum equivalent to the maximum available under the current rules (so that members who choose to commute more and thus have a lower pension will not get treated any more favourably under the abatement arrangements).

2. Added Pension

2.1 How does Added Pension differ from Added Years?

Members can currently top up their pension by buying Added Years. Added Years contracts involve an ongoing commitment to pay a set percentage of pay until pension age (currently 60 for most). This contribution (which increases with pay) buys a specific number of years and days of pensionable service. The contribution rates vary with age at the date of taking out the contract. Added pension will enable members to buy specific amounts of extra pension rather than amounts of pensionable service. The extra pension bought will increase in line with the Retail Prices Index (RPI) each year – both before members retire and also when in payment.

2.2 Why has added pension been introduced for those over age 60 first?

Because Added Years contracts stop at age 60, there were no facilities for those over age 60 to top up their pension benefits within the scheme.

*Note: the pension scheme rules do not allow Added Years to be purchased beyond “pension age”. For most members of **classic**, **classic plus** and **premium** this is age 60. However, “Pre-Fresh Start Prison Officers” in **classic** have a reserved right to a pension age of 55. Added pension has therefore also been introduced for such members over age 55.*

2.3 How will I be able to buy added pension?

You will be able to buy added pension by:

- monthly contributions from pay – either a set amount (for example, £20 each month) or a set percentage of salary (for example, 5% each month). This will be subject to a minimum monthly contribution of £10, and/or
- a lump sum contribution (not permitted in the first 12 months of service. After that, a maximum of one lump sum contribution will be allowed each year – minimum £100).

2.4 What benefits will added pension contributions buy me?

You will buy a specific amount of extra annual pension which reflects the benefit structure of your pension scheme.

So, a member of the **classic** scheme buying £200 a year of added pension will also buy an automatic lump sum payable on retirement of £600 and a widow(er)/civil partner pension of £100 a year. (Single members of **classic** will not, however, have rights to a partial refund of WPS (widows'/widowers' pension scheme) contributions on retirement (as they do with their main scheme contributions) and they will need to take this into account in deciding whether or not to buy added pension.)

Added pension for **premium** and **classic plus** members will similarly reflect the benefit structure of the scheme in question. For example, someone buying £800 a year added pension in **premium** or **classic plus** will have rights to give up some of their pension for lump sum on retirement and will buy a widow(er)/partner pension for life of £300 a year.

2.5 How much will added pension cost me?

The cost of added pension will depend on your age (it gets more expensive as you get older) and, in the case of lump sum contributions, on current market factors (interest rates). There is a calculator on the Civil Service Pensions website to enable you to get an indication of how much it will cost you (if you do not have access to the website you can ask your pensions administrator to do this for you). The cost will be reviewed in future, generally every three or four years, and may go up.

The calculator will give you an estimate of how much added pension you can buy with either a lump sum or regular monthly payments over a set period of time. It will also give you an estimate of how much you will need to pay if you want to increase your pension by a set amount, for example £500 a year – again, either as a one-off lump sum payment or by monthly contributions.

2.6 How much added pension can I buy?

You cannot use added pension to increase your pension by more than £5,000 a year if you are in **premium** or **classic plus**, or £4,000 a year (plus lump sum of £12,000) if you are in **classic**. These limits were set in 2007-8 and will go up each year in line with the Retail Prices Index (RPI).

2.7 Will I get tax relief on my contributions ?

Yes, provided that your contribution does not exceed the limits set by HM Revenue and Customs. In general, you can get tax relief on pension contributions of up to 100% of your taxable earnings, or £3,600 if you earn less than that amount.

2.8 When can I apply to buy added pension?

Everyone can apply to buy added pension from 1 March 2008. Monthly contributions start from the April following a member's application (which will be April 2008 for those who apply as soon as the facility becomes available in March). You cannot buy added pension by lump sum contribution if you are in your first year of service but, otherwise, can apply at any time from 1 March 2008.

There are special arrangements if you reach age 60 before 1 March 2008. You can apply to buy added pension before March 2008. You can buy added pension from 1 October 2007 or the date you reach age 60 whichever is the later.

*Note: "Pre-Fresh Start Prison Officers" in **classic** who reach age 55 before 1 March 2008 can buy added pension from 1 October 2007 or the date they reach age 55 whichever is the later.*

2.9 Will I be able to buy Added Years in the future? What will happen to my existing Added Years contract?

We will be introducing added pension for all scheme members from 1 March 2008, after which date you will not be able to take out new Added Years contracts (unless you are in **classic**, in which case you may commit, before 1 March 2008, to a new Added Years contract starting from your next birthday).

Your existing Added Years contract will continue unless you choose to cancel it.

2.10 Can I buy added pension if I already have an Added Years contract?

Yes. The limits apply separately.

2.11 How long do I have to commit to pay monthly contributions?

When you complete your application form you can say that you want to make contributions for 12 months, for a longer period or that you want to make contributions "until further notice". These choices are just there so that you don't have to keep instructing payroll to make deductions; if you want to stop early you can do so.

2.12 How do I pay by lump sum?

If you want to buy added pension by a lump sum contribution, you should ask your pension administrator for a quote. They will send you a firm quote, which will be on the basis that the money gets to them by the guarantee date, which will be one month from the date they issue the quote. You can either pay by deduction from payroll (which is best, because you get the tax relief at source) but, if you want to make a large contribution you may need to do this by cheque. If you are going to pay by

cheque you need to agree this with your pensions administrator and you will also have to claim the tax relief back from HMRC through the self-assessment process.

2.13 How can I get the calculator to show me what monthly contributions for a part year will buy? (for example, for staff who reach age 60 before 1 March 2008)

An estimate of what a part year's contributions would buy can be obtained from the calculator by inputting an option for monthly contributions for one year, and then prorating the answer.

3. Changes to service limits

3.1 How are service limits increasing under the proposed new arrangements?

At present, service counting towards your pension (reckonable service) is limited to 40 years in **premium** and in **classic plus**. In **classic**, the limit is 40 years at pension age, with the ability to build up a further 5 years after pension age.

We will be increasing the service limit to 45 years for all from 1 March 2008. Members who are capped at 40 years' service at that date will be able to build up further service from 1 March 2008 but will not, retrospectively, have the current cap lifted.

Examples:

George reaches 40 years' reckonable service on 30 September 2007. George retires on 31 December 2008. George would have expected his pension to be based on 40 years' service but it will now be based on 40 years and 10 months' service as the period from 1 March 2008 to 31 December 2008 will also count as reckonable service.

Sally is now 40 and she has 21 years' reckonable service. She intends to retire in 23 years' time when she is 63. She will then have a total of 44 years' reckonable service which will all count towards her pension. If she stays on until 65, only 45 years of her total 46 years will count.

3.2 What happens if I transfer pension rights into the scheme under the proposed new arrangements?

Any reckonable service that you are credited with as a result of a transfer will count towards the new limit of 45 years.

4. Partial retirement (also known as phased retirement or flexible retirement)

4.1 How will partial retirement work under the proposed new arrangements?

At present, members cannot normally draw pension and carry on working except where they retire and are subsequently re-employed. From 1 March 2008, we will introduce “partial retirement” arrangements. The partial retirement arrangements will allow members who, with the agreement of their employer, re-shape their jobs so that their pensionable earnings reduce by at least 20%, to draw some or all of their pension and carry on working. (Any pension drawn before pension age will be reduced for early payment). This flexibility is intended to facilitate a gradual move from work to retirement. Any pension drawn will be subject to abatement (it will be reduced if pension drawn plus pay is more than pay before job re-shaping).

Example:

Beth is 61 and agrees with her employer to move from full-time working to 3 days per week. Beth’s full-time salary is £20,000 and her part-time salary will be £12,000. Beth has built up an annual pension of £10,000 (based on 40 years) in **classic** but Beth realises that any pension drawn over £8,000 a year will be abated (because pension drawn plus pay would then be more than pay before job re-shaping). Because she is over pension age, she can draw pension without it being reduced for early payment. Beth decides to draw £8,000 pension a year (and a lump sum of £24,000), which represents 32 years’ service.

Beth has 8 years’ reckonable service left and this, combined with her reckonable service in her part-time job, will build up further pension and lump sum in **classic**, which Beth will take when she finally retires.

4.2 Do I have a right to take partial retirement under the proposed new arrangements?

If you are confirmed as meeting the scheme conditions for partial retirement, you will have the right to take pension under the partial retirement arrangements, but you will not have the right to demand changes to your job (changes to hours or job weight) that will facilitate this. If you are interested in exploring whether you can re-shape your job, speak to your line manager and your HR section. You can only re-shape your job with the agreement of your employer – they have to consider the business needs and it may not be possible for them to agree. Alternatively you may be able to move to another job with your employer or elsewhere in the Civil Service which would enable you to meet the partial retirement conditions.

4.3 What do I need to bear in mind if I am considering partial retirement under the proposed new arrangements?

You will need to bear the following in mind:

- you cannot take your pension benefits before age 50 (55 if you joined on or after 6 April 2006)
- if you take your pension benefits before pension age they will be reduced for early payment
- abatement will apply where the amount of pension you take plus your pay exceed your pay before you re-shaped your job. This means that your pension may be reduced or suspended while you are working
- partial retirement will reduce your reckonable service for subsequent benefits
- the facility to draw pension on job re-shaping will only be available to those who do so on or after 1 March 2008, or to those who did so before 1 March 2008 after reaching pension age
- you can only take partial retirement if you and your employer expect your job re-shaping to be permanent. If, exceptionally, your pay increases significantly in the future, your pension will be subject to abatement (if your pay plus pension exceeds your pay before partial retirement).

5. How will I be able to find out more about any of these proposed changes?

An Office Notice giving you more details about applying for added pension will be issued in November.

Further information will be posted on the Civil Service Pensions website at www.civilservice-pensions.gov.uk before the further changes (due 1 March 2008) take place.

November 2007